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RUEAIIA/CIA WASHDC PRIORITY
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0354

S E C R E T SECTION 01 OF 03 TEGUCIGALPA 000521

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STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR S, D, E, P, AND WHA
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK

E.O. 12958: DECL: 03/16/2036

TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [PINR](#) [VZ](#) [HQ](#)

SUBJECT: HONDURAN PRESIDENT ZELAYA NOW CLAIMS HE SECRETLY
WANTED A LIBERALIZED FUELS MARKET ALL ALONG

REF: A. (A) TEGUCIGALPA 482

[1](#)B. (B) TEGUCIGALPA 505

Classified By: Classified By: Ambassador Charles Ford for reasons 1.4 (b) and (d).

[1](#)1. (U) This is an action cable. Please see para 11.

[1](#)2. (S) Summary: In a private meeting, President Zelaya told Ambassador he was solely responsible for the decision to move to a state-run fuel import regime, but that he had done so in the hopes the affected companies could convince the Honduran public that it was a bad plan. The future failure of that plan, he said, would give him an opening to liberalize the fuels market -- his alleged true aim. Post is skeptical of his explanation, but proposes to engage him on this issue in order to quickly test his commitment to move to the liberalized market he claims to want. Separately, former President Carlos Flores expressed concerns at the potential damage done to the GOH-USG relationship by Zelaya's recent statements. Flores and Zelaya also reported that PetroCaribe is off the table as an option. Post is skeptical and will continue watching developments, particularly for signs that PetroCaribe is still being pursued by the Zelaya team. End Summary.

[1](#)3. (S) Ambassador met with President Jose Manuel "Mel" Zelaya the evening of March 15 to deliver a strong message of support for U.S. oil companies facing possible expropriation of their assets (ref A). The unpublicized meeting was hosted by former President of Honduras Carlos Flores, who privately told Ambassador that he was "stunned" by Zelaya's attacks on the U.S. companies in his Monday press conference (ref B). Flores said he is frustrated at the apparent mess Zelaya is making of relations with the U.S. and sought to mediate a rapprochement.

[1](#)4. (S) Zelaya opened by admitting to Ambassador that he had met with Venezuelan President Hugo Chavez while in Chile (a senior aide had previously denied the meeting took place), and that he had only "shaken hands" with Secretary Rice. Ambassador noted that the new GOH administration will be judged in part by the friends it chooses, and that by meeting with Chavez while not even seeking a meeting with Rice,

Zelaya was sending a message. Zelaya took this on board, but made no comment on the content of his talks with Chavez, other than to say that PetroCaribe was not an option. Separately, Flores had told Ambassador that the talks were fruitless, as Chavez had reportedly rebuffed Zelaya, claiming that he (Chavez) had his own problems to deal with and that he did not want to provoke the USG further. He would be willing to lend money to Honduras in an emergency, but that was as far as he could go. In effect, Flores said, PetroCaribe is off the table. (Comment: This does not sound like Chavez to us. We also note that this report contrasts sharply with the view of Vice President Elvin Santos, who had confided to Ambassador the day before his belief that the public tender is specifically aimed at allowing Honduras to access PetroCaribe financing. Santos is now in Washington, DC at a Microsoft conference. End Comment.)

15. (S) Discussion then turned to the March 6 decision to move forward with an international tender for fuel imports. Zelaya told Ambassador that the decision had been his and his alone. According to Zelaya, the numerous ministers that incorrectly told Post as late as the afternoon of March 6 that there would be no decision taken at the meeting that evening were not lying, they simply did not know. Zelaya admitted the plan is primarily political theatre and has little economic justification. (Indeed, the consultant will reportedly get a performance bonus even if the total savings realized are as little as USD 20 million.) Zelaya decided to announce the plan on March 6 because he feared that street protests against fuel prices threatened for March 7 (when he would be out of the country) could create a "governability crisis."

16. (S) Zelaya also told Ambassador that he was disappointed

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at the weak defense from the oil companies to the proposal. He claims his intent had been to allow the companies to prove the bid solicitation is a bad idea, thus giving him political cover to change course. (Comment: Zelaya's recent rhetoric -- particularly his implication on March 13 that any failure of the plan would be the result of a transnational oil company conspiracy to sabotage it, and his subsequent threat to prosecute them if there are shortages -- would have made it impossible for the companies to follow his alleged strategy in any case. End Comment.)

17. (S) Ambassador noted Zelaya's explanation of the political motives for the decision, but explained that the results of the decision could easily result in a de facto expropriation of U.S. investor assets and rights. In an effort to avoid a future crisis over such an issue, the Ambassador said, Post requests that the GOH identify senior-level interlocutors now to begin discussions of compensation to the companies. Zelaya was visibly shocked by the suggestion that the decision would require compensation, or that an expropriation crisis was a possibility. Ambassador closed by noting that in the event of such a crisis, the USG would intervene forcefully in defense of U.S. investor rights.

18. (S) In a dramatic shift, Zelaya then told Ambassador that he actually would prefer to liberalize the fuels market in Honduras, along the lines of El Salvador. However, he does not feel he could stand up to firebrand Juliette Handal, leader of the &Patriotic Coalition,8 or to Roman Catholic Cardinal Andres Rodriguez, both of whom supported the international tender. He also said he could not stand up to the vested interests of the domestic fuel distributors and retailers -- who would certainly lose their bloated profit margins under any reform plan. Instead, these constituencies must first see the public tender fail, to give Zelaya room to propose a liberalization scheme. Rather than tackle this issue, Zelaya will seek to include fuels market reform as a performance criterion in the next International Monetary Fund agreement, scheduled for April.

¶9. (S) IMF Resident Representative noted separately on March 15 that inclusion of such a criterion would be "the surest way to drive Honduras off the program." He questioned whether the intent of such a request was to give the GOH an excuse to later break faith with the Fund agreement. He also noted that some probing of the issue has convinced him that little or no analysis of the fiscal impact of the proposed import scheme has been conducted. The IMF review team, in Honduras this week, will raise this issue with the GOH as appropriate.

¶10. (S) Post proposes two prompt responses to Zelaya's announcement of his desire to liberalize the market. First, the USG should seek to immediately engage the Zelaya Administration by sending a team to explore his intent to create a liberalized fuels market over the next two or three years. Second, Post recommends a senior-level dialogue between the affected companies and the GOH. To date all contacts between the companies and the GOH have been at the country manager level. If a crisis or expropriation is to be avoided, senior corporate leadership should now get involved. Such talks could be conducted privately, out of the public eye, and could be linked to or part of the above discussions on reforms and liberalization.

¶11. (U) Action request for State/EB, Energy, and Commerce: Post seeks Washington agency assistance in identifying technical experts in fuels market liberalization, regulation, and administration who could travel to Honduras to engage in a dialogue with the GOH on these topics. If Zelaya is serious, the USG should be prepared to support his efforts at liberalization. Such support should be coordinated with the World Bank, which also provides intermittent technical assistance to the GOH on fuels market issues.

¶12. (S) Comment: Post does not find Zelaya's alleged strategy (using the bid proposal as a straw man to leverage reform) credible. We do not feel the GOH has adequately

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considered the political and economic fallout of the game they have chosen to play -- including but not limited to: its budget impact; its impact on the economy; the potential for expropriation compensation claims; the damage to investor confidence; and strained relations with the U.S. Post also remains unconvinced that PetroCaribe is off the table, and will remain alert to signs of moves to access that program by the GOH. We are unsure how to evaluate Zelaya's call for liberalized fuel markets, but feel it is too good an opportunity to pass up. If he is serious, a concerted effort now could move Honduras towards an open, competitive, more efficient market -- essential for long term growth and investment. We should take him upon his offer, and push hard for the reforms he claims to seek.

¶13. (S) Comment (continued): Far more troubling is Zelaya's apparent strategy of letting difficult issues proceed to crisis instead of confronting them. If he is unwilling or unable to exercise leadership when confronted by a relative political lightweight like Juliette Handal, how will he fare when he must face down the teachers' unions on public sector wages later this year? End Comment.

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